

To the Members of the California State Senate:

I am returning Senate Bill 1563 without my signature.

While this bill may be a well-intentioned attempt to address the rising costs of prescription drugs to primary care clinics, it could have the unintended consequence of increasing drug costs to the California Medicaid Program, other government purchasers, and potentially the beneficiaries of those plans. Costs to the State will increase through a decline in manufacturer rebates as a result of the disclosure of proprietary information. This bill would require pharmaceutical manufacturers to contract with qualifying entities for discounts related to the Medicaid best price. Because qualifying entities do not have exemption from disclosure under the Public Records Act, these discounts would become known. Increasing the risk for exposure of a manufacturer's contract price may encourage manufacturers to avoid entering into contracts for drugs at prices lower than their lowest public available price.

Additionally, primary care clinics currently have power to create purchasing pools, utilize a Pharmacy Benefits Manager or Group Purchasing Organization, or purchase through contracts negotiated by the Department of General Services, to obtain drugs at the price manufacturers negotiate with their largest commercial clients.

For these reasons I am returning this bill without my signature.

Sincerely,

Arnold Schwarzenegger